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Contingent liability reserve for the United Nations Postal Administration**

Report of the Secretary-General

Summary

The present report is submitted pursuant to section XIV of General Assembly resolution 62/238 and the related observations and recommendations of the Advisory Committee on Administrative and Budgetary Questions contained in its report (A/62/350) on the report of the Secretary-General on the contingent liability reserve for the United Nations Postal Administration (A/61/900).

In the present report the Secretary-General provides an update on the measures taken as an alternative to the establishment of a contingent liability reserve to eliminate risks posed to the United Nations Postal Administration by mass mailing.

* A/63/150 and Corr.1

** The submission of the present report was delayed owing to the need for extensive consultations required among various offices concerned, including those located away from Headquarters.

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I. Introduction

1. The United Nations Postal Administration (UNPA) was established by the General Assembly in its resolution 454 (V). A primary objective in creating the UNPA was the promotion of the aims and activities of the United Nations through the issuance of United Nations postage stamps.

2. United Nations postage stamps can be posted only at the three issuing stations, New York, Vienna and Geneva. Stamps are issued in denominations of United States dollars, Swiss francs and euros. The agreements with the postal authorities of the United States of America, Switzerland and Austria state that the respective post offices would be reimbursed for mailing charges for United Nations stamps. Mail received by the United Nations at the respective issuing stations is forwarded to the national postal authorities for mailing. UNPA then reimburses the postal administrations for the mailing charges.

3. Based on available data, it is estimated that approximately 12 per cent of overall stamp sales have been presented for mailing and 88 per cent of stamps are outstanding and have never been mailed. It is assumed that they are held by collectors. These stamps constitute a contingent liability inasmuch as there is the theoretical possibility that such stamps could be presented for mailing at any time at UNPA post offices. No provision has been made to cover such liability.

4. In earlier reports on this subject (A/61/295 and A/61/900), the Secretary-General requested approval for the establishment of a reserve for contingent liability for postal services for previously issued UNPA stamps and approval as an exception to regulation 3.14 and rule 103.7 of the Financial Regulations and Rules of the United Nations, for the funding of the reserve by transferring the balance of net income of postal services to the reserve until a ceiling level of $3.3 million has been reached.

5. This recommendation is in line with recommendations contained in the report of the Board of Auditors (A/61/5 (Vol. I), para. 477), in which the Board suggested that UNPA consider setting up a contingency reserve from sales revenue to cover the mailing charges of pre-sold United Nations stamps in the event that customers might use the stamps in the future.

II. Update on the previous report of the Secretary-General

6. As indicated in earlier reports, it is evident that the majority of individual collectors who have bought United Nations stamps will not use the stamps in their collections for mailing since most collectors are not located near UNPA offices. The only use for previously issued UNPA stamps that could pose a risk to the operations of UNPA are mailings by bulk mailers presenting items to the United Nations using United Nations stamps purchased on the open market. Many previously issued United Nations stamps have no collection value and therefore can be purchased significantly below their issuance value. Some of these stamps are now sold off as collectors have stopped collecting. In the past, some philatelic companies have used such stamps to mail their catalogues and magazines by presenting them to the UNPA post office for mailing.

7. As indicated in the earlier report of the Secretary-General, the introduction of the euro in 2002 and the limited exchange of Austrian schilling-denominated stamps for one year eliminated the possibility of previously issued United Nations stamps being used for bulk mailing in Austria as UNPA no longer accepts mail using schilling-denominated stamps. Since UNPA also reduced the overall volume of stamps produced and sold on the open market, euro-denominated stamps are not sold on the secondary market at a discount. As a result, bulk mailing using such stamps is not economical. Similarly in Geneva, bulk mailing has been eliminated following discussions with the Swiss postal authority. The Swiss authorities advised UNPA that they no longer accept external commercial mail under their agreement with the United Nations.

8. In New York, effective 1 September 2007, UNPA put in place a new stringent policy that restricts large consignments of mail, specialized mail services and mass mail. This policy eliminated bulk mail charges while maintaining mail services for philatelic services as outlined in the United Nations agreement with the United States Postal Service. Since 1 September 2007 no bulk mail has been presented to UNPA for posting. The effect of the implementation of this policy has been a continuing reduction in the estimate of the contingent liability for stamps sold in prior periods being presented for posting in the current period.

9. The elimination of bulk mail also had positive effects on the profitability of the UNPA operations, which reported a net profit of $1.5 million for the biennium 2006-2007.

10. In line with the recommendation by the Advisory Committee on Administrative and Budgetary Questions in its related report (A/62/350), the Secretary-General continued his efforts to obtain discounts for first-class mail for its New York-based operations. However, the mail volume produced by the United Nations Mail Operations, including the UNPA volume, does not meet minimum requirements for discounts offered by the United States Postal Service. Furthermore, such discounts require pre-sorting and other pre-mailing preparations that are not feasible for most of UNPA remaining mail, which consists of an assortment of various envelope sizes and postcards.

III. Conclusion and recommendations

11. In his previous report (A/61/900), the Secretary-General proposed establishing a reserve for contingent liabilities for postal services in the amount of $3.3 million. Further to the actions taken by the Secretary-General in response to the request by the General Assembly in its resolution 62/238 to eliminate risks posed by mass mailing as an alternative to establishing a contingent liability reserve, the Secretary-General advises that all possible measures have now been implemented.

12. With the implementation of the policy to restrict large consignments of mail, specialized services and mass mail and the related decrease in postal charges, and therefore the related decrease in the liability, the Secretary-General recommends that a reserve not be established at this time and that the existing practice be continued, which involves meeting from current income any additional expenditure incurred for postage from sales recorded in prior periods. Until a trend emerges from the implementation of the new policy, it would not be possible to determine with accuracy the appropriate level of contingent liability. Once a trend is

established, UNPA will estimate the new level of contingent liability in coordination with the Office for Programme Planning, Budget and Accounts, which will then be brought to the attention of the General Assembly.

13. As stated in the earlier reports, the United Nations system accounting standards require that contingent liabilities be disclosed in the financial statements. While there continue to be difficulties in estimating the value of the UNPA contingent liability for stamps that have been sold and will be presented for mailing in the future, the Secretary-General does disclose the nature of the contingent liability with respect to UNPA operations in the footnotes to schedule 5.1 of the United Nations financial statements. The footnote included in schedule 5.1 of A/63/5 (Vol. I) is as follows: "Contingent liability. Stamps sold are included in revenues, but could be presented for use in a future period. During 2007 UNPA put in place further measures that would restrict such usage by bulk mailers, which would reduce the potential liability of the United Nations. Earlier estimates of the Organization's contingent liability were approximately $3.3 million. In view of the measures taken in 2007, at present it is not possible to reasonably quantify the extent of such a contingent liability as at 31 December 2007".

IV. Action to be taken by the General Assembly

14. The General Assembly may wish to take note of the present report.